

25X1

Approved For Release 2007/03/16 : CIA-RDP85T00875R001900010213-1

Approved For Release 2007/03/16 : CIA-RDP85T00875R001900010213-1

CIA/OCER/S-05978-74

S-5978

25X1

4 March 1974

25X1

MEMORANDUM FOR: VSSG Working Group

SUBJECT : South Vietnam: Inflation, Real Incomes
and Foreign Aid

1. John Bushnell suggested that the attached notes on South Vietnam's economic outlook be distributed to VSSG Economic Panel members who may not have seen it in the various CIA current intelligence formats in which it appeared. The article, essentially a "think piece," was designed for readers generally unfamiliar with South Vietnam's economy; the numbers, such as aid levels, thus represent only rough magnitudes. The published version was streamlined to a degree, and the attached is the original draft, somewhat fuller and more explanatory in nature. The conclusions, however, were unchanged in final copy.

2. A particularly important feature of the Economic Panel's utility is the opportunity for stimulating dialogues and information exchanges. We count on your assistance in this context. The deterioration in living standards in South Vietnam is receiving increasing interest. As you all are aware, official communications from Saigon are becoming more concerned in tone. Any thoughts, suggestions or additional information thus will be appreciated, as we are planning further research and publication in this area. The article, for example, has already elicited the information that government employees are probably not the hardest hit by inflation. Apparently, as contracts expire in both private industry and the US sector, money wages are actually being reduced.

25X1

CONFIDENTIAL

State Dept. review completed

26 February 1974

South Vietnam's Economic Outlook Uncertain

South Vietnam's economy has been in a severe slump for almost two years, and the outlook is for more of the same in the months to come. The country's economic problems presently pose the greatest threat to President Thieu's otherwise strong domestic position and a continued deterioration would increase the risk of political instability.

Thieu recognizes this threat. Recent cabinet shifts have been largely the result of attempts to bring in men who are more energetic and action-oriented, but no clear-cut economic policies have emerged. Moreover, the government, leaning toward more direct controls, possesses only limited financial or administrative tools to deal with short-term problems. And, with retail prices up 65% last year and an additional 15% thus far this year, continued declines in real income will almost surely decrease the efficiency of both military units and civilian programs.

Economic problems -- as well as potential political difficulties -- are presently concentrated in urban areas and in those classes with fixed incomes. The stagnation in industrial production, rapid inflation, and the sharp reduction in US military spending, all have hit urban areas the hardest. Although no data are available, unemployment is clearly on the increase; a recent US Embassy study hazards

CONFIDENTIAL

CONFIDENTIAL

that unemployment may now be on the order of 1 million people, some 15% of the labor force.

Even for those employed, wages generally are failing to keep up with the rising cost of living. This is particularly true of government employees, both civilian and military, who account for more than one-fifth of the labor force. Despite a 25% pay increase last year, the real wages of government employees are probably at best only two-thirds that of a year ago. The regular salary of lower-level employees -- including a series of special allowances as well as commissary and PX privileges -- will now barely cover a family's expenditures for rice. Moonlighting and the employment of other family members help, but jobs are scarce. In addition to some lay-offs by Vietnamese manufacturers, the US sector -- which at its peak in 1969 directly employed some 150,000 Vietnamese and probably indirectly provided work for an equal number -- continues to reduce the number of jobs for local hires.

The agricultural sector remains relatively strong, recovering from a disappointing year in 1972. Real incomes in this sector have probably increased somewhat over the past few years, and there are preliminary indications that a record rice harvest is now coming in. This performance, however, is unlikely to be sustained unless fertilizers and fuels become more available and more reasonably priced. Recent increases in rice production have been due almost entirely to increased

CONFIDENTIAL

CONFIDENTIAL

use of high-yield varieties, more intensive application of chemical fertilizers, and increased mechanization. The retail price of fertilizer has, however, more than doubled over the past year; another important input, gasoline, ~~has~~ ^{is} up more than 200%. Because of this, some farmers are reportedly now reverting to subsistence agriculture, with increased use of the traditional, lower-yielding varieties of rice. These varieties are hardier and thus less dependent on the vagaries of weather and on imported inputs.

With this shift, farmers will probably still be able to meet their own needs as well as insulate themselves somewhat from external market forces, but private merchants or government representatives may find it more and more difficult to purchase Delta rice for shipment to Saigon and other rice-deficit areas of the country. Further increases in paddy prices would eventually bring forth the needed production response from farmers, but these prices had already nearly doubled in 1973. More price-increases would either further burden low-income urban families or, if the government attempted to subsidize rice sales, put added strains on a government budget already displaying a large deficit.

The outlook for aid and income from special transactions with the US is cloudy at best. US economic assistance (including surplus agricultural goods under the PL-480 program) has remained relatively constant at about \$500 million over the past few years. However, the increase in world prices, particularly last year's

CONFIDENTIAL

CONFIDENTIAL

average 25% for goods purchased by Vietnam, has reduced the volume of imports these dollars will buy. At the same time, the other major source of foreign exchange -- US spending in South Vietnam -- has dropped sharply. US piaster purchases for both official and personal use fell from a peak of \$400 million in 1971 to about \$130 million last year.

Aid from countries other than the US (primarily Japan and France) will probably continue to increase, but over the short-term the total amount will still make only a small dent in Vietnam's aid and import requirements. Moreover, negotiations are proceeding more slowly than anticipated. The same is true for multilateral aid. The IBRD-hosted meeting for Indochina reconstruction, previously scheduled for 11-12 February, was postponed at least until May, primarily because of the US Congress' defeat of a measure to finance the US share of the International Development Association, the World Bank's conduit for grants and low-interest loans. A multilateral aid group for South Vietnam may yet emerge from the meeting when it occurs, but even if does, very little flow of funds is likely to take place this year. Total aid from non-US sources will probably amount to somewhat less than \$100 million this year, about double that provided in 1973.

Despite rapid export growth from a very small base during 1972-73, South Vietnam's imports -- some \$740 million in 1973 -- will continue to be financed in large part by US aid. Increased

CONFIDENTIAL

~~CONFIDENTIAL~~

dollar costs for major import items (fertilizer, rice, wheat, petroleum products) could, for the same volume of imports, produce a 1974 import bill of well over \$900 million. US aid is presently anticipated at about the same level as last year. With exports expected to be about \$100 million in 1974, the US Embassy in Saigon has requested an immediate supplemental aid appropriation of \$250 million. Some arrangements may be made for additional aid, but support in this magnitude -- designed not only to meet the shortfall but to provide some impetus to growth as well -- would be very difficult to achieve given the size of this year's US aid budget.

Thus, given the present levels of anticipated foreign aid for this year, the outlook for 1974 is for an economic performance similar to 1973 -- low domestic and foreign investment, little or no growth in production, widening income inequalities, growing unemployment, and continued deferral of reconstruction and development. Moreover, each increase in consumer prices, with no concomitant gain in money incomes for the working classes, improves the prospects for disturbance.

25X1



- 5 -

~~CONFIDENTIAL~~

OER/S/EC:

(S-5978) 4 March 1974

25X1

Distribution:

- 1 - D/OER
- 2 - D/S
- 1 - St/P
- 1 - St/CS
- 1 - SA/ER
- 1 copy each to VSSG Economic Panel
- 3 - S/EC